

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**(Re-opened)
CASE NO. 15341
ORDER NO. R-14016-A**

**APPLICATION OF RKI EXPLORATION AND PRODUCTION TO RE-OPEN
CASE NO. 15341 TO AMEND THE SPACING UNIT UNDER THE TERMS OF
COMPULSORY POOLING ORDER NO. R-14016, EDDY COUNTY, NEW
MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 15, 2015, at Santa Fe, New Mexico, before Examiner Michael McMillan.

NOW, on this 5th day of November, 2015, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) RKI Exploration and Production ("RKI" or "Applicant"), seeks approval of a non-standard 160-acre oil spacing and proration unit ("Unit") for oil production in the Wolfcamp formation, Brushy Draw; Wolfcamp (O) Pool (pool code 97136), comprising the W/2 E/2 of Section 17, Township 26 South, Range 30 East, NMPM, Eddy County, New Mexico. Applicant further seeks the pooling of all uncommitted interests in the Unit.

(3) The Unit will be dedicated to the Applicant's RDX Federal Com. 17 Well No. 26H (the "subject well"; API No. 30-015-42752), a horizontal well drilled from a surface location 200 feet from the South line and 1425 feet from the East line (Unit O) of Section 17, to a terminus or bottomhole location 500 feet from the North line and 1980

feet from the East line (Unit B) of Section 17. The completed interval will remain within the 330-foot standard setbacks required by the Division Rule 19.15.15.9(A) NMAC.

(4) The subject well is within the Brushy Draw; Wolfcamp (O) Pool (pool code 97136). Spacing in this pool is governed by Division Rule 19.15.15.9A. NMAC, which provides for standard 40-acre units, each comprising a governmental quarter-quarter section, and 330-foot setbacks from the unit boundaries. The proposed Unit and project area consists of four (4) adjacent quarter-quarter sections.

(5) Applicant appeared at the hearing through counsel and presented land and geologic evidence to the effect that:

- (a) the Wolfcamp formation is suitable for development by horizontal drilling;
- (b) Division Order No. R-14016 was approved on July 15, 2015 for the subject well in the Undesignated Ross Draw; Wolfcamp Gas pool (pool code 84330).
- (c) Artesia District Office of the Division changed the pool designation from a gas pool to an oil pool as per Division Rule 19.15.15.11 A(2)NMAC;
- (d) the new pool for the subject well is the Brushy Draw; Wolfcamp (O) Pool (pool code 97136);
- (e) the dedicated acreage changed from the E/2 of Section 17, which was 320 acres to the W/2 E/2 of Section 17, which is 160 acres;
- (f) the Applicant's RDX Federal Com. 17 Well No. 16H located in Section 17 Township 26 South, Range 30 East, produces in the correlative zone as the subject well, and the API gravity of the oil is 45 degrees. This well is shown on the left-hand side of Cross-section A-A`;
- (g) the landing zone on Cross-section A-A` is the producing zone;
- (h) all quarter-quarter sections to be included in the Unit are expected to be productive in the Wolfcamp formation, so that formation of the Unit as requested will not impair correlative rights;
- (i) notice was provided for compulsory pooling within the Unit to all interest owners subject to pooling proceedings;
- (j) All parties subject to pooling were located; and

(k) All other aspects of Hearing Order No. R-14016 should remain in effect.

(6) No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes that:

(7) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(8) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the proposed well to a common source of supply within the Unit at the proposed location.

(9) There are interest owners in the Unit that have not agreed to pool their interests.

(10) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(11) Producing GOR and API gravity of the well completion is indicative of an oil reservoir.

(12) The subject well should be reassigned to the Brushy Draw; Wolfcamp (O) Pool (pool code 97136).

(13) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

(14) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,500 per month while drilling and \$750 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*."

IT IS THEREFORE ORDERED THAT:

(1) The application of RKI Exploration and Production to amend Division Order No. R-14016 is hereby approved.

(2) A non-standard 160-acre oil spacing and proration unit is hereby established for oil production from the Wolfcamp formation consisting of the W/2 E/2 of Section 17, Township 26 South, Range 30 East, NMPM, Eddy County, New Mexico.

(3) Pursuant to the application of RKI Exploration and Production, all uncommitted interests, whatever they may be, in the oil and gas in the Wolfcamp formation underlying the Unit, are hereby pooled.

(4) The Unit shall be dedicated to the Applicant's RDX Federal Com. 17 Well No. 26H (the "subject well"; API No. 30-015-42752), a horizontal well drilled from a surface location 200 feet from the South line and 1425 feet from the East line (Unit O) of Section 17, to a terminus or bottomhole location 500 feet from the North line and 1980 feet from the East line (Unit B) of Section 17. However, the completed interval will remain within the 330-foot standard setbacks required by Division Rules.

(5) The subject well shall be reassigned to the Brushy Draw; Wolfcamp (O) Pool (pool code 97136).

(6) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(7) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the proposed well. If no objection to the actual well costs is received by the Division, and the Division has not objected, within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(8) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(9) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(10) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(11) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$7,500 per month while drilling and \$750 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to pooled working interest owners.

(12) Except as provided in Paragraphs (9) and (11) above, all proceeds from production from the proposed well that are not disbursed for any reason shall be held for the account of the person or persons entitled thereto pursuant to the Oil and Gas Proceeds Payment Act (NMSA 1978 Sections 70-10-1 through 70-10-6, as amended). If not disbursed, such proceeds shall be turned over to the appropriate authority as and when required by the Uniform Unclaimed Property Act (NMSA 1978 Sections 7-8A-1 through 70-8A7-8A-28, as amended).

(13) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

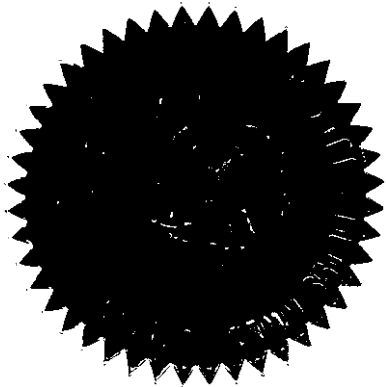
(14) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this Order, this order shall thereafter be of no further effect.

(15) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this Order.

(16) All other provisions of Order No. R-14016 shall remain in full force and effect.

(17) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

DAVID R. CATANACH
Director